

Reciprocal Control and the Development of Transnational Agribusiness in the China-Myanmar Border

Xiaobo Su
Department of Geography
University of Oregon

and

Kean Fan Lim
Centre for Urban and Regional Development Studies
Newcastle University

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Correspondence Address: Xiaobo Su, Department of Geography, University of Oregon, Eugene, OR 97403-1251. Fax: (541) 346 2067; Tel: (541) 346 4568; Email: xiaobo@uoregon.edu

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Xiaobo Su is an associate professor in the Department of Geography, University of Oregon, Eugene, Oregon, USA. Email: Xiaobo@uoregon.edu

Kean Fan Lim is Lecturer in Economic Geography and Urban and Regional Development at Newcastle University, UK. He is primarily interested in the impact of city–regional policy experimentation on national–level regulatory pathways in China. Kean s research has been widely published in journals within and beyond geography. Email: keanfan.lim@newcastle.ac.uk

Opium substitution, reciprocal control and the tensions of geoeconomic integration in the China-Myanmar Border

Abstract

Over the past decade, the Chinese state has launched a strategic opium substitution program to support agricultural firms in Yunnan province to invest in northern Myanmar, which is second only to Afghanistan in drug production. These Yunnanese firms are encouraged to collaborate with or hire ex-poppy farmers to plant rubber, sugarcane, tea, corn, and other crops so that these farmers can leave the drug economy successfully. This paper examines the context and challenges of this program through a framework that highlights the tensions between geopolitics and geoeconomics. At one level, the framework demonstrates how the geopolitics-geoeconomics relationship is reinforced by reciprocal control: the promise of monetary profits has become a strategic tool for the Chinese state to implement narcotics control in northern Myanmar. At another level, however, reciprocity is manifested unevenly as not all private producers respond to this strategy in a positive and engaging manner. This unevenness inevitably generates regulatory tensions at multiple scales and underscores, in turn, how border security remains intrinsically unstable vis-à-vis attempts at geoeconomic integration.

Keywords: reciprocal control, transnational agribusiness, China, Myanmar, geopolitics, geoeconomics, border security

Introduction

The notorious illicit opium-producing region of northern Myanmar has become the frontline in China's war on drugs. Sharing a border with China's Yunnan province, the region is endowed with an ideal climate to produce opium poppy, the prime ingredient for heroin. Drug trafficking from northern Myanmar into Yunnan is currently perceived by the Chinese state as a serious security challenge because around 60 to 70 percent of the drugs consumed in China are estimated to come from this region (National Narcotics Control Commission (NNCC), 2015). To handle this challenge, the Chinese state launched an opium substitution program to encourage and support Yunnan-based agricultural firms to invest in northern Myanmar and to collaborate with or hire ex-poppy farmers to plant rubber, sugarcane, tea, corn, and other crops. These crops are exported into China through a quota system. Instead of a narrow economic policy for capital accumulation, transnational agribusiness in the China-Myanmar border involves a synthesis of a geopolitical strategy to handle drug-related security challenges and a geoeconomic approach to build a China-driven transnational agricultural network from which Yunnanese firms can profit. Its emergence reinforces Moisio and Paasi's (2013: 261) call to "rethink the often taken-for-granted distinctions between the domestic and international or the geopolitical and the geoeconomic."

This paper analyzes the dynamic state-firm relationships that underpin agribusiness in the China-Myanmar border region. Working through the interaction between securitization and marketization, it shows how geopolitical security concerns are entangled with profit-driven agribusiness. Geopolitically, the Chinese state is confined to

its sovereign limits because it cannot unilaterally dispatch law enforcement to northern Myanmar to eliminate poppy plantations and prevent drug trafficking (Su, 2015). These limits echo Cowen and Smith's (2009: 31) observation that "national territoriality has become the challenge rather than the resolution to insecurity." To overcome these limits, one strategy is to bring firms into the geometry of national security to handle potential and existential threats located in foreign territories. Cowen and Smith (2009: 25) construe this approach as a geoeconomic strategy through which "geopolitical forms [are] recalibrated by market logics." The most explicit consequence of this recalibration is "the proliferation of non-state and private actors entangled in security" (Cowen and Smith, 2009: 25). For instance, the rise of commercial security by privately organized extraterritorial forces such as Blackwater demonstrates the outsourcing of important state functions to private firms in the cases of Iraq (Fitzsimmons, 2013; Snukal and Gilbert, 2015) and Afghanistan (Shannon, 2009). National cybersecurity in the United States and United Kingdom is outsourced to privately owned and operated firms, which reinforces public-private partnership as the cornerstone of national security strategies (Carr, 2016).

To frame how the Chinese state copes with an economically-oriented form of "security initiative," we draw on Alice Amsden's (2001) concept of reciprocal control. Different from mainstream economists who highlight self-regulating markets and the rollback of the state, Amsden (2001) reiterates the importance of selective, careful state intervention in the market, particularly for those latecomers who must compete with advanced economies. This state intervention includes two aspects: a control mechanism to impose discipline on economic behavior, and a principle of reciprocity. As Amsden

(1989: 8, original emphasis) argues, “in Korea, Japan, and Taiwan, ...the state has exercised discipline over subsidy recipients. *In exchange for subsidies, the state has imposed performance standards on private firms.* Subsidies have not been giveaways, but instead have been dispensed on the principle of reciprocity.” To achieve reciprocal control, states need to wield infrastructural power, or administrative and economic capacities, to support and subsidize firms for particular purposes, but also to regulate and punish firms for not making good use of state resources or achieving designed goals (Amsden, 1989). Although Amsden’s conception provides a useful starting point for theorizing the political economy of development, it is restricted to domestic economic development in East Asia and inadequately explains how firms *react* to the state’s geoeconomic and security policies.

This paper expands Amsden’s work along three lines of inquiry: firm responses, variegated neoliberalization, and security concerns. First, we examine how firms actively negotiate their “reciprocity” of state control for their internal benefit rather than operate passively within international security frameworks. In and through these dynamic responses, the tensions of geoeconomic integration become apparent. Second, we rethink reciprocal control as a highly contextualized geoeconomic strategy of neoliberalism in the context of East Asia. At first glance, the partnership between the Chinese state and firms for opium substitution suggests an expansion of neoliberal governance into the terrain of drug control, but the process is actually “predicated on relational geo-institutional differentiation: tailored to actually existing economic-geographical contexts across and beyond Chinese state space” (Lim 2014: 229). Reciprocal control could thus

be better understood as integral to and an outcome of variegated neoliberalism: it is not a linear-sequential historical process (i.e., a movement from authoritarianism to free market capitalism), but a selective adaptation of neoliberal logics to *advance broader regulatory objectives*. Finally, we foreground the intrinsic instability of reciprocal control by examining the *tensions* between the market logic of profit-making by firms and the territorial logic of national security. The collective goal of these lines of inquiry is to situate Amsden's focus on reciprocal control within the geopolitics-geoeconomics relationship and, in doing so, shed light on the Chinese state's mobilization of private firms to overcome sovereign limits. Through these three objectives, this paper avoids a form of static equilibrium between the state and firms in the process of regional development, and thus transcends "dichotomous conceptualizations of 'state-capital' coupling" (Lim, 2012: 713). We argue that reciprocal control underpins the dual process of securitization and marketization, with the Chinese state and firms negotiating tensions and even conflicts in flexible ways so as to achieve their respective objectives.

This article is structured as follows. The next section conceptualizes reciprocal control in relation to the geopolitical and geoeconomic calculations in China. This is followed by an analysis of reciprocal policies from the national government in Beijing to support the opium substitution program. Section four focuses on two forms of control (subsidy regulation and import quota control) deployed by subnational state agencies in Yunnan to regulate transnational agribusiness. Reciprocal control emergent at two scales—the political and financial support from the central government and the control by subnational state agencies—is foregrounded as the key institutional framework to

promote and regulate transnational agribusiness in the China-Myanmar border. The subsequent section explores the tactics of collaboration and evasion used by Yunnanese firms to react to reciprocal control. The importance of examining transnational agribusiness as a mixture of market logic and geopolitics is reemphasized in the conclusion.

Situating reciprocal control within the geopolitics-geoeconomics relationship

The notion of reciprocal control builds on the “corporatist” developmental model that was adapted from other East Asian developmental states. Within such a model, the Chinese state increasingly becomes the active mediator and coordinator of intersectoral relations, while stepping back from direct intervention (Unger and Chan, 1995; Norris, 2016). Having said this, the domestic characteristics of the state-firm nexus are significantly reconfigured vis-à-vis new geopolitical and geoeconomic engagements following China’s growing influence in the process of economic globalization. These engagements lead to what Gonzalez-Vicente (2011) terms the internationalization of the Chinese state, a process that involves gradual reterritorialization and resolves challenges brought by transnational capitalist coalitions and the cultural hegemony of neoliberal ideologies (Glassman, 1999). Against this context, reciprocal control is introduced in the border regions between China and Myanmar.

The state-firm dynamics of reciprocal control can be better understood through the theoretical debate on geopolitics and geoeconomics. In one pioneering study on geoeconomics, Luttwak (1990) argues that geoeconomic priorities and modalities have

become increasingly influential in state actions in the post-Cold War context when the relevance of military threats gradually waned. Geoeconomic engagement with foreign forces enters into state politics, partly because economic interest groups seek to manipulate the state's activities on the international scene for their own purposes, and partly because the logic of commerce dictated competition in international political economy. Hence, Luttwak (1990: 19) argues that states will tend to act geoeconomically simply because of what they are: "spatially-defined entities structured to outdo each other on the world scene."

Since then, the tensions between geopolitics and geoeconomics remain an important topic. Geoeconomics specifically prioritizes "the accumulation of wealth through market control" (Cowen and Smith, 2009: 41). While geoeconomics can be understood as a function of capital accumulation, it is simultaneously oriented towards noneconomic objectives in the context of international political economy. By incorporating market logics within geopolitical calculations, geoeconomics has fostered what Cowen and Smith (2009: 40) call "a new disciplining architecture replacing the geopolitical mechanisms of colonial administration." Today, territorial occupation is no longer a desired and feasible form of capital accumulation; rather, countries establish numerous transnational trade agreements and supranational trading blocs to facilitate the accumulation of wealth (Dicken, 2015). Cowen and Smith (2009) further argue that the rise of geoeconomics does not necessarily mean the demise of geopolitics or the insignificance of national territories. Rather, the strict articulation of national territories loses its salience because boundaries blur in order to facilitate the flows of capital and

commodities worldwide, while state security along borders and inside territories has been sharpened so that the flows of undesired labor power are restricted.

Regarding the transformation of state power in an era of neoliberal capitalism, Cowen and Smith (2009: 41) argue that geoeconomic calculation drives the state to become “an entrepreneur in its own right, a player in the market first and foremost rather than a regulator of the market’s ‘excesses.’” While this argument spells out the key characteristics of the state and undoubtedly illuminates the extensions of geoeconomic engagement to geopolitical struggles, it remains strikingly abstract and neglects how the engagement plays out *in place* vis-a-vis geopolitical calculations. This neglect represents, in turn, a challenge for comprehending Chinese geoeconomic expansion. The Chinese state consists of a disaggregated set of actors; underlying what appear to be coherent, national-level attempts at geoeconomic integration and geopolitical containment are tensions and negotiations amongst these actors (Wedemen, 2003; Lim, 2014). Understanding how the geoeconomic expansion of power, defined by Domosh (2013) as commercial or economic dominance without direct political control over territory, unfolds in the China-Myanmar border region therefore provides an excellent platform to evaluate how national-level strategies are affected by local interpretation and implementation.

Cross-border agribusiness driven by the opium substitution program is directly related to the emergence of a military-state-entrepreneurial complex in northern Myanmar aimed at stripping resources and land grabbing (Woods, 2011; Jones, 2014). As

Jones (2014) aptly argues, the Burmese armed forces (*Tatmadaw* in Burmese) coercively intervene in the center-peripheral conflict under the guise of safeguarding national unity, but attempt to maintain their preferred politicoeconomic order and protect their own corporate interests in northern Myanmar. Nevertheless, coercive punishment, forced displacement, and land grabs have fuelled popular resentment among ethnic highlanders against the *Tatmadaw*. These seemingly endless military conflicts between local ethnic military groups and the *Tatmadaw* led to territorial fragmentation and economic deprivation in northern Myanmar and consequently provided an ideal setting for illegal businesses (Su, 2018).

Because these contexts impinge on narcotics control and lie beyond the Chinese central government's territorial control, a geoeconomic strategy was developed and introduced in Yunnan to engage with this military-state-entrepreneurial complex and reduce the inflows of illicit drugs into China. Here we find that Yunnanese state agencies and agricultural firms align with one another around the project of opium substitution in northern Myanmar. This alliance is fostered partly because the Yunnan government, acting on strategies introduced by Beijing, must rely on agricultural companies to overcome its strict territorially-based regulatory limit, or what Agnew (1994) refers to as the "territorial trap." At the same time, these firms also rely on the Chinese state's political and financial support to reduce operation risks in northern Myanmar. Writing about the coexistence between geoeconomically active states and private economic operators, Luttwak (1990: 22) points out that states might either guide large firms for their own geoeconomic interest or provide necessary support for firms' business

operation, giving rise to a relation of “reciprocal manipulation.” This viewpoint is suggestive, but might simplify the state-firm relation. A more incisive way to grasp this relation is through Amsden’s (2001) concept of reciprocal control.

Specifically, reciprocal control draws on two interrelated strategies: “to make manufacturing profitable enough to attract private enterprise[s] through the allocation of subsidies and to induce such enterprises to be results-oriented and to redistribute their monopoly profits to the population at large” (Amsden, 2001: 125). Amsden (2001: 251) further elaborates how state institutions discipline and promote economic activities:

The control mechanism of ‘the rest’ revolved around the principle of reciprocity. Subsidies (‘intermediate assets’) were allocated to make manufacturing profitable—to facilitate the flow of resources from primary product assets to knowledge-based assets—but did not become giveaways. Recipients of subsidies were subjected to monitorable performance standards that were redistributive in nature and results-oriented.

The value of Amsden’s concept lies in the *dynamic emphasis* on reciprocity. While state authorities offer subsidies and other preferential policies to entice enterprises to invest in certain industrial sectors, the state-firm relationship is far from harmonious. Regulatory and industrial policies therefore do not lead to uniform and anticipated outcomes. In view of these challenges, how do states align corporate strategies and goals to the overarching national logic of “development”? Some answers, this paper suggests, could be found in the *degree* of reciprocity amongst firms to geopolitically-motivated policies of the state.

Reciprocity via gift-giving is voluntarily made, but as Mauss (1990: 3) observes, gifts in reality are often “given and reciprocated obligatorily” (Mauss, 1990: 3). Reciprocity thereby alludes to a complex set of social intentional practices for some actors to secure something otherwise unavailable to them. As Mauss (1990: 17) elaborates, there is a succession of “rights and duties to consume and reciprocate, corresponding to rights and duties to offer and accept.” In the context of China’s geoeconomic expansion, this point can be turned around: firms receive “gifts” from the state and are obliged to reciprocate by fulfilling the state’s economic and social goals. This obligation similarly happens in other economies. Drawing on the remaking of the labor market in Singapore after the 2007 global financial crisis, for instance, Lim (2012) highlights precisely how reciprocity plays out when the Singapore state makes proactive efforts to reregulate and reposition the local labor market to meet the demand of transnational corporations. Reciprocity juxtaposed with state regulations gives rise to “a unique state-firm-labor nexus” that contributes to the capital accumulation dynamic in Singapore (Lim, 2012).

Underpinning the analysis are two essential functions that are integral to reciprocal control: the direct supply of financial incentives and political support to enterprises (reciprocity), and the delicate exercise of regulation and punishment upon enterprises to ensure the implementation of political goals (control). Implementing control is therefore not merely about gift giving; it involves the efficient organization and mobilization of state resources to support and regulate firms. This process is multi-scalar: it involves the

configuration of *place-specific relations* that could embed transnational capital flows. Paradoxically, however, the engagement with transnational circulatory capital inevitably encourages what Wedeman (2003) terms “strategic disobedience,” a situation where loopholes within the expansive regulatory structure could be exploited for firms’ own benefit. As the case study on the cross-border region of Yunnan and northern Myanmar will show, reciprocal control cannot be generalized as simply a one-dimensional process that will kickstart this accumulation dynamic. It also possesses the possibility of a counterfunction—one that firms employ to evade state regulations. In a direct counterpoint to the objectives of state-led geoeconomic expansion, evasion becomes a business strategy—though possibly illegal from the perspective of the state—of firms to break down state regulation and thus maximize economic returns. Through this tactic of evasion, reciprocal control can be understood less as an abstraction of gift giving and receiving, and more like a dynamic process that involves control, resistance, and compromise between firms and the state. Exploring this dynamism will shed more light into the tensions between geopolitical calculations and geoeconomic integration. The extent to which this “strategic disobedience” could disrupt the geopolitical concerns of the Chinese state is a direct empirical focus of this paper.

Before proceeding further, we offer a brief note and caveat on data collection. Fieldwork was conducted in two border prefectures (Banna and Dehong) in Yunnan from May to July, 2016, and in July 2017 (Figure 1). In each prefecture, ten firm managers and five government officials were interviewed about the development of transnational agribusiness (total number: 30). These officials came from departments such as

commerce, public security, customs, and entry-exit inspection. Half of the manager respondents were approached through personal networks in Yunnan and the other half were introduced by commerce officials in Banna or Dehong. All interviews were conducted in Mandarin or Yunnanese dialect.

Informed consent, anonymity, and confidentiality were guaranteed to all informants in this research project. Background information on individual participants was minimized to further ensure anonymity. Despite these measures, the paper recognizes inherent limitations to the validity of first-hand data. It is very hard to directly check the validity of the information provided by our respondents during interviews, as they refused to share their financial records with us. Furthermore, officials felt reluctant to talk about the opium substitution program because the topic is sensitive. For instance, one commerce official in Dehong said: “I won’t share any written document with you, but I can briefly say something to you. Narcotics control in the border area is a very sensitive topic. Foreign media reports defame (literally in Chinese, *mohei*) what we have done in northern Myanmar. It is too bad.” To overcome these limitations and enhance the reliability of the data collected, the comments were: (a) cross-referred to identify commonalities and contradictions, and (b) juxtaposed with published domestic and international media and policy reports.

Reciprocal policies for transnational agribusiness

Because of its isolated location and perfect climate for opium poppy cultivation, northern Myanmar became globally infamous for its drug plantations and trafficking. Generally

the region refers to two ethnic highland states: Shan state and Kachin state. Drug plantations in this region can be traced back to the 1880s when British colonizers initially introduced opium seeds from India to what was then Burma, and encouraged the hill tribes to plant opium (Chin, 2009). Today it becomes a substantial geographical belt where illicit drugs—heroin and amphetamine-type stimulants (ATS)—are produced and trafficked. Although illicit drugs from northern Myanmar pose serious challenges to China's national security and social stability, the Chinese state's drug control initiatives are confined by two geopolitical limits. First, the Chinese state cannot impose complete border control against drug trafficking along the over 1400 kilometer porous borderline between Yunnan and northern Myanmar (Figure 1). And second, the Chinese state cannot directly wield its coercive force to punish a threatening group of people who live on foreign territories. To overcome these geopolitical limits, the Chinese state has worked with various institutional forces to launch a strategic opium substitution program to support Yunnanese agricultural firms, regardless of whether they are state-owned or private, to invest in source areas in northern Myanmar.

(Insert Figure 1 about here)

To ensure the effectiveness of the opium substitution program, the Chinese state actively works with its counterparts in Myanmar to embark on transnational collaboration. In 2007, state representatives from China and Myanmar signed the Action Plan for Opium Substitution Program in Naypyitaw, which cleared policy hindrances for Yunnanese firms to invest in northern Myanmar. In the signing ceremony, the Chinese state representative asserted that:

The Chinese state would like to further enhance cooperation with Myanmar in the sector of poppy crop substitution and alternative development to gradually improve the livelihood of farmers who abandoned poppy cultivation and to totally resolve the poppy growing issue that endangers both sides.¹

Opium substitution and economic development, to the Chinese state, constituted the key to transnational cooperation in the border regions. This view continues to be held jointly by antidrug state agencies in China and Myanmar—cross-border development via economic cropping in northern Myanmar is necessary for narcotics control.

If transnational cooperation demonstrates the Chinese national government's political support, special reciprocal policies are needed to incentivize Yunnanese firms to venture into northern Myanmar. In 2006, the State Council approved the substitution program by creating special funds in the Ministry of Finance to disburse as subsidies and tax waivers to Yunnanese agricultural firms. Annual funding for the program was increased to 250 million yuan (~US\$39.5 million) per year in China's twelfth five-year plan for 2011-2015, up from 50 million yuan (~US\$7.9 million) previously. The funding was redistributed to Yunnan and allocated by Yunnan Department of Commerce and local commerce bureaus in border prefectures. So far, around 200 Yunnanese firms have participated in the opium substitution program. Over 80 percent of these firms are privately owned. According to Guo Shengkun, then State Councilor in charge of national security in China, the Chinese state had spent 1.6 billion Chinese yuan (~US\$250 million) in the program by 2016; in the northern parts of Myanmar and Laos, the total

¹ http://news.xinhuanet.com/english/2007-11/20/content_7116465.htm

size of land for opium substitution reached over 2,300 km². As Guo asserts, “We will continue to promote sustainable alternative development and provide assistance as much as we can to help relevant countries.”²

More reciprocal policies were implemented at the subnational scale. For instance, in 2004, Yunnan Department of Commerce released the Interim Measures to Promote and Regulate the Opium Substitution Program, with specific instruction towards investment projects related to agricultural production and farming, alternative development via mining and tourism, and infrastructure improvement (road, irrigation, and power). Specific policies from these measures include incorporating narcotics control into national leaders’ meetings; permitting subnational governments in Yunnan to directly handle international affairs related to the program without going through state agencies in Beijing; providing more public funding and credit support to agricultural enterprises which participate in the program; giving zero-tariff treatment to economic crops imported through the program; and simplifying customs procedures for the import of economic crops.³ These policies represent the first explicit, albeit somewhat ad hoc, acknowledgment of the economic potential of transnational agribusiness between Yunnan and northern Myanmar.

The significance of zero-tariff treatment cannot be underestimated. Crop plantation is just a first step to reducing narcotics plantation. If crops produced by ex-poppy farmers

² <http://www.china-un.org/eng/hyyfy/t1357307.htm>

³ The full text of the Interim Measures can be found via http://www.yn.xinhuanet.com/drug/2004-05/26/content_16810645.htm

cannot be sold, then their interest in those crops evaporates (Farrell, 1998). Economic crops produced in source areas should be sold in extra-local markets so that farmers can receive positive cash inflow for improved livelihood. Indeed, for major source areas such as northern Myanmar, an extra-local market is often located in foreign countries, partly because domestic markets generate weak effective demand for economic crops, and partly because military conflicts and ethnic tensions block the smooth flow of commodities from source areas to major cities such as Yangon and Mandalay (Chin, 2009). Laochen, who once led the opium substitution program in Banna, explains the plantation-sale procedure:

If we do not purchase back their crops, our job is only half done. We need to provide a full-package service. Those ex-poppy farmers cannot open a new market [for their crops]. We have to organize companies to purchase these crops and sell them [in China]. Then the farmers can receive income and be willing to plant crops [instead of opium poppy]. (Interview, July 2016)

This explanation deserves further analysis. First, it verifies the existence of a transnational network that involves state agencies and firms in Yunnan, and farmers in northern Myanmar to facilitate crossborder agribusiness. While this development corresponds with the previously mentioned military-state-entrepreneurial complex as identified by Jones (2014) and Woods (2011), this complex has not played a decisive role in the China-led opium substitution program. Local military strongmen and administrative elites in northern Myanmar's border area adjacent to Yunnan, either appointed by the Burmese central government or affiliated with quasi-autonomous ethnic

military groups, reap economic benefit from China's agricultural investment through tax, bribery, protection charge, and carried interest, but they are involved in plantation, sale, and distribution.

Second, a market to purchase economic crops produced by ex-poppy farmers is extremely important to the long-term initiative in narcotics control. In this sense, the opium substitution program is similar to aid programs in Shan and Kachin states launched by the Japan International Cooperation Agency and several UN agencies such as the World Food Program and the United Nations Office on Drugs and Crime, as all of them aim for poverty reduction and social development. Nevertheless, China provides a market-based solution by opening its domestic agricultural market to crops made in northern Myanmar, making the opium substitution program not merely aid for temporary relief, but a pathway to economic development. Because of widespread agricultural protectionism in the U.S., Japan, and the EU, efforts to promote economic crops from source areas in the Andean countries and Afghanistan are deemed to be problematic and even failures, as farmers cannot sell their crops to external markets for steady economic returns.

Lim (2012) specifies that the articulation of reciprocity is twofold: discursive-politico commitment and material incentives. The above description of institutional arrangement for the opium substitution program reveals how these two aspects play out. Geoeconomically, the business in northern Myanmar is a form of what Hofman and Ho (2012) call "developmental outsourcing." In this process, which involves state-facilitated offshore incentives for agricultural production and economic development, the state and

its agencies, rather than agricultural firms, play a key role in planning and driving transnational agribusiness (Hofman and Ho, 2012). Geopolitically, the business enables the Chinese state to overcome its sovereign limits and contain the negative influence of transnational drug trade. The opium substitution program's geopolitical significance, culminating in a tight collaborative relationship between the Chinese state and firms for transnational agribusiness, is revealed by government officials: "Sometimes it is quite inconvenient for us to do something in northern Myanmar. So we can request firms to help us, regardless of business with local legal authorities or ethnic military groups" (a planning official in Dehong); and, "Due to opium substitution, our law enforcement can enter into northern Myanmar. If this program did not exist, we could not do so" (a security official in Banna).

While these comments appear to represent coherent state action, this paper does not construe the Chinese state as monolithic. Rather, tensions between the central government in Beijing and local authorities in Yunnan's border prefectures do exist. As the former prioritizes controlling poppy plantation in northern Myanmar and deterring drug trafficking in Yunnan, the latter struggles with a delicate balance between political orders from Beijing and local economic development. Local authorities in Dehong, for instance, endeavor to turn the prefecture into a major center of agricultural product distribution linking fruits, beans, and sugarcanes grown in Shan and Kachin states with the whole Chinese market. The opium substitution program provides much-needed preferential policy conditions, authorized by the central government, to make this geoeconomic goal possible.

Once the tension becomes implacable and local economic interests damage national security concerns, however, the national concern takes precedence. This can be seen in the Kokang incident in 2009 when Burmese armies attacked Kokang-based ethnic military forces and led to the temporary suspension of transnational agribusiness. Many local cadres in Yunnan were consequently sacked and imprisoned. It is therefore clear that the geoeconomic strategy to nurture transnational agribusiness between Yunnan and northern Myanmar must strongly align with two interrelated geopolitical calculations: narcotics control and border security. When the geopolitical goals are jeopardized, the central government in Beijing has exhibited no restraint in intervening to reshuffle the geoeconomic arrangement and even impose personnel discipline. Nevertheless, the central government has to rely on local authorities to monitor and manage the opium substitution program. The following section analyzes how this subnational system of control is implemented in Yunnan.

Localized regulatory control over transnational agribusiness

Accompanying the national government's attempt at geoeconomic integration is a localized system of control and regulation. This system entails two major aspects: subsidy regulation and import quota control.

Subsidy regulation

For Yunnanese firms, the first step to participate in the opium substitution program is to invest in rentable land in northern Myanmar. Then the firms submit project feasibility reports, land rent contracts, and a map with GPS data of the plantation area to the local bureau of commerce where they register in order to apply for special public funding for

opium substitution. Once the commerce bureau approves their application, the firms create a special bank account to receive public subsidies from the local bureau of finance. Meanwhile, these firms arrange for a special accountant to manage this account by submitting annual financial reports to the commerce bureau. The money from the finance bureau can be used to cover the costs in northern Myanmar, including transporting economic crops from farmland to border ports, building social welfare projects, providing allowance to Chinese technicians, and other costs. After disbursement, the commerce bureau continues to track and supervise how the funding is used. A firm can be punished following any detection of funding misuse by the bureau. Furthermore, firms are allocated funding annually rather than given a lump sum up front to ensure the attainment of annual plantation goals. Miss Chen, a financial manager in a Banna-based firm, explains:

As far as I knew, our boss just wanted to receive free money from the government. It [the opium substitution program] was driven by the government and seemed to be a profitable business. It went sour because the commerce bureau in Banna carefully kept track of the project. Our firm had to update information about the use of funding as well as the project in Mongla [in northern Myanmar].

This information on enforced reporting was validated through a cross reference to comment by Huang (a commerce official in Banna) that “a firm cannot cancel the special bank account or withdraw from the program before it completes the project it promised.” Reciprocity in this instance is therefore obligatory, as discussed previously in section 2.

Meanwhile, the opium substitution program stipulates that financial support should be used partly for social welfare projects in the plantation areas in northern Myanmar.⁴ Firms are required to do these projects as long as they accept the Chinese state's public subsidy. One firm manager in Banna explains:

The subsidy is very limited and our firm has to use our own money for social welfare projects. First of all, we need to build roads in villages. In the past, no one built roads in these villages and now they have some, only after we started investing in sugarcane plantation. In addition, we help them to build primary schools. We also spend money on building community centers.

This use of public and private funding for social welfare projects is a strategy used by the Chinese state to push Yunnanese firms to establish local social networks in the villages where they operate their agribusiness. Over 80 percent of manager respondents indicate that firms generally conformed to regulations upon receiving a public subsidy, an outcome which corresponds with what Amsden (1989: 94) terms a "monitored system of controls on subsidies."

Import quota control

In order to regulate zero-tariff imports, the bureaus of commerce in Yunnan's six border prefectures (Pu'er, Banna, Lincang, Baoshang, Dehong, and Nujiang) have been working with local Customs branches to establish a quota system. Around 40 crops have been placed in the system, and sugarcane and rubber are two main crops. Yunnanese firms

⁴ One manager notes that public subsidy for social welfare projects is around 350 yuan per mu (0.16 acre).

must report and validate their plantations in northern Myanmar in order to receive zero-tariff import quotas every year. If the quota runs out, a firm must go through cross-border petty trade by paying a tariff of around 3.89%, or through other forms of customs clearance. Semi-manufactured agricultural products will be charged much higher tariffs. When asked why they did not build sugar mills in northern Myanmar, for instance, the respondents from sugar firms explained that Chinese Customs treated semi-manufactured sugar as an industrial product instead of raw material. They therefore have to pay between 16% to 25% in tariff and other taxes for refined sugar from northern Myanmar.

This high tariff is similarly applied to semi-processed rubber products. The quota system ensures that approved economic crops can be treated as domestic raw materials in the Chinese market, and allows the Chinese state to effectively regulate the import of manufactured goods. The high bar against semi-manufactured agricultural products can protect workers in Yunnan's sugar mills and other processing plants from external shocks and thus safeguard their livelihood. Herein lies a potential source of conflict between the geopolitical logic of border control and the geoeconomic logic of capital accumulation. Indeed, the global movements of agricultural commodities are subject to the territorialized order of receiving societies, as shown in the cases of tomatoes between Mexico and the U.S. (Berndt and Boeckler, 2011; Berndt, 2013) and tobacco leaves between Brazil and Paraguay (Dorfman *et al.*, 2017). In this case study, the Chinese border becomes accessible and sealed off at the same time. The process of ordering and bordering imposes selective force upon the inflows of economic crops produced in Shan and Kachin states in northern Myanmar and thus gives rise to a complex amalgam of

manifold and often deeply unequal practices between the Chinese state agencies and firms.

Field research indicates the success of import quota control on shaping and regulating Yunnanese investors' agribusiness in northern Myanmar. The goal, as one commerce official in Banna commented, "is to promote the opium substitution program and protect the Chinese agricultural market as well." This quota-related protection clearly aims to control the inflow of economic crops made in northern Myanmar to China so as to maintain the interests of Chinese farmers. Import quota control becomes a nonmarket mode of integration built upon reciprocal control, and creates what Amsden (1989: 94) calls "a condition for domestic protection." The continuum of political control upon Yunnanese firms' decision making varies from subsidy inspection to quota approval. Any progress along this continuum is contingent on the coordination between these firms and local bureaus of commerce in Yunnan.

Meanwhile, the commerce bureaus also contract independent investigation teams from universities and research institutes to use remote sensing data and on-the-ground visits to check whether firms provide accurate data of crop plantation, including crop types and output, plantation area and location, and land contract agreements. One commercial official from Dehong emphasizes, "we have the necessary data to know how much firms earn from transnational agribusiness." Through this regulation system, state agencies want to supervise firms' participation in the opium substitution program and ensure that they comply with regulations. Nevertheless, this control is only possible due to the Chinese state's efforts to impose territorial control upon the accessibility to

financial resources and the Chinese market. State control is integral to the geoeconomic expansion of Chinese capital, but as be discussed in the following section, this control can engender ‘strategic disobedience’ on the part of firms (ref. section 2).

In the China-Myanmar border region, the Chinese state instituted reciprocal control to align the economic interest of Yunnanese agricultural firms with its antidrug strategy in northern Myanmar. The two main control policies highlighted in this section constitute the regulatory framework for transnational agribusiness. In this sense, reciprocal control is a mode of development that in certain ways has enabled the Chinese state to subsume market actors (Yunnanese firms and workers) to its geopolitical objectives. It would be interesting, then, to explore how firms react to—or, more specifically, reciprocate—this institutional arrangement.

Firms’ responses to institutionalization

If Yunnanese firms are indeed important to China’s transnational narcotics control in northern Myanmar, it would then be necessary for research to move beyond the abstraction of state-led geoeconomic integration to examine and evaluate actual economic activities on the ground. Indeed, these firms are not passive respondents of state regulations. Rather, they actively deploy the tactics of collaboration and evasion to reduce business risks and increase economic returns.

Collaboration with state agencies

Generally, firm managers highlight the importance of a positive collaborative relationship with state agencies, and particularly local departments of commerce. They do not deny

the fact that they benefit from good relationships with commerce officials, including higher import quotas, necessary intelligence reports, and preferential loans from commercial banks (Amsden 2001). As Mr. Liu (one sugar mill manager) explains,

For our agricultural investment in northern Myanmar, we rely on the commerce department for sure. All of our application materials and projects go through the commerce bureau in Dehong. The officials also fully support our agribusiness, particularly through financial support. Furthermore, we timely report to the commerce bureau the issues we encounter, such as smuggling and tariff reduction. They will collaborate with other agencies such as border security, customs administration, and foreign affairs to address these issues. The commerce bureau always gets involved in our transnational agribusiness. If there is something wrong, they have to take some responsibility. (Interview in Dehong, July 2016)

Mr. Liu highlights how his transnational agribusiness is built upon shared interests between his firm and local state agencies in Dehong. A typical response among manager interviewees points to the need to maintain a good relationship with local officials in Yunnan's border prefectures. They highlight political support from state agencies, as all interviewees have joined local commerce officials to discuss agricultural investments with ruling elites in northern Myanmar. Like Mr. Liu, other interviewees appreciate the actions taken by local state agencies in Yunnan to handle the difficulties they face in their transnational agribusiness. Here, these managers enjoy business-friendly conditions that

nourish their agricultural investments and reap economic returns. Against this pro-business context the Chinese state's geopolitical objective is met.

Apart from political support, information sharing allows firms to reduce losses within a highly unstable geopolitical context. Specifically, military conflicts are commonplace in the border region on the Myanmar side. In August 2009, Burmese armies attacked the Kokang-based Myanmar National Democratic Alliance Army (MNDAA) in response to the MNDAA's alleged involvement in drug trade. Since November 2016, conflicts between Burmese armies and military groups such as the Kachin Independent Army, the MNDAA, and the Ta'ang National Liberation Army have already resulted in hundreds of casualties. In these harsh conditions, advanced warning is necessary. Ms Wu, a business owner of cross-border trade enterprises in Yunnan, had this conversation with the authors (Interview in Dehong, July 2016):

Ms Wu: Safety is very important. Once officials receive intelligence about imminent conflicts in northern Myanmar, they immediately inform us and ask us not to dispatch staff members to potential war zones. We cannot shape domestic affairs in northern Myanmar, but we try to avoid personnel loss with the help of our government.

Authors: How about the investment?

Ms Wu: You cannot think about that too much. Personal safety is more important than money, right? After all, we hire local people we trust to look after the field and reduce losses.

Indeed, after the Kokang incident in August 2009, the Chinese state changed the strategy of opium substitution. As one official from Dehong Department of Public Security emphasizes, “safety is the priority.” Considering the high risk in agricultural investment in potential war zones in northern Myanmar, the Chinese state attempted to reduce the scope of the plantation area on the one hand, and regulate capital outflows and crop inflows on the other. This swift action demonstrated reciprocity on the part of the state and highlights how private firms increasingly become valued as strategic political-economic partners. While the scale of state involvement is confined to this border region, the collaborative dynamics underscore the significance of state power to ensure the implementation of geoeconomic strategies abroad.

Resistance and evasion

The Chinese state’s ongoing efforts to entwine transnational agriculture in Yunnan with security objectives are often met (a) with firms’ tactics of resistance against state regulations and (b) with collusion between local cadres and entrepreneurs. While this phenomenon is not unique to China and across East Asia, its occurrence has not been documented as a dynamic aspect of the geopolitics-geoeconomics relationship. Indeed, even Amsden’s studies on reciprocal control in South Korea and Taiwan have not foregrounded empirical evidence of resistance and evasion as potential disruptions to reciprocity. We advance this point by demonstrating how the desire of embezzlement cannot be easily prohibited despite a monitoring system to ensure the appropriate use of public funding to support opium substitution projects. Ms Qian, a former manager in Banna, says:

I saw many cases of embezzlement in the past despite the government's strict supervision. Our company was not well organized and, frankly speaking, our boss hoped to grab money from the government.

When asked whether their firms take advantage of the opium substitution program to misuse public money, our respondents normally denied any allegation, but indicated that some other firms probably engaged in financial fraud. Still, the misuse of public subsidy is not common, partly because the amount distributed to firms is relatively limited, and partly because misconduct could receive severe punishment from local commerce bureaus. Rather, firm managers complain that the public subsidy is not enough to cover the costs of social welfare projects or remedy their loss due to uncontrollable factors such as military conflict and trafficking. For instance, Ms Wu in Dehong points out that her firm suffered a loss of over 10 million yuan (~US\$1.58 million) because the price of sugarcane smuggled into Yunnan was lower than the price her firm paid growers in northern Myanmar. She complains, "If the government cannot stop the smuggling, our loss will continue. Of course, the government does not cover our losses." This is an important finding as it demonstrates a distinct separation of the economic from the political.

The public subsidy "pie" is so small that firms find no need to overtly resist the state. The lucrative business comes from the import of economic crops from Myanmar into Yunnan and the simultaneous ability to take advantage of various customs regulatory frameworks to avoid tariffs. A clear indicator of the relevance of geopolitical control, the quota system enables the Chinese state to determine the import of economic crops from

northern Myanmar. Various fissures are created when the policy is implemented on the ground, however. As respondents from sugar mills in Banna and Dehong explain, the output of sugarcane production in Shan and Kachin states in northern Myanmar can reach 1.8 million tons per year, but the total quota for zero-tariff sugarcane import through the opium substitution program is around 1.4 million tons. Apart from around 10 percent of sugarcane that is refined into sugar and then trafficked into China, around 85% of northern Myanmar's sugarcane enters the Chinese market via the quota system, cross-border petty trade (3.89% tariff), regular trade (9-10% tariff), and smuggling. Like sugarcane, other economic crops such as rice, corn, and banana are smuggled into Yunnan through the porous border between Yunnan and Myanmar. For instance, the Ruili river, a natural border that separates Ruili in Yunnan and Muse in northern Myanmar, is lined with numerous informal ports to smuggle commodities. The villages along the river on the Myanmar side contain cargo stations for trucks, mainly registered in Ruili, to load and unload agricultural crops and manufactured goods.

Apart from smuggling, another tactic is to trade quotas for economic return. For instance, a state-owned enterprise (SOE) in Banna still received import quotas from the Banna Department of Commerce after it went bankrupt. With no way to actually use up these quotas to import rubber latex, the shell company hired an accountant to sell its quotas to private firms. These private firms used the quotas to import rubber latex on behalf of the shell quota owner. As one rubber firm manager in Banna asserts, "Selling quotas became a lucrative business for the firm and a lot of people benefited from it." The fissure in state regulations allows entrepreneurs to earn more money, though the trade on import quotas is illegal.

Finally, entrepreneurs can take the opportunity to build strong “friendship” with local officials, particularly customs officials, through commissions and bribery. One private firm based in Banna participated in the opium substitution program around 2006 and became a leader in rubber latex import. Laoding, the boss of this firm, invested substantial funds to foster good connections with officials in the local customs administration. Maggie, a financial manager who formerly worked for Laoding, reports what she saw:

One day, the supervision division in the local customs administration called my colleague working in the public relations office. Then my colleague went out. I asked him why? He said he needed to pay a bill in a seafood restaurant where a customs official’s wife was having dinner. My boss arranged for people in the public relations office to do this sort of job. How smart he is! If cross-border trade is a piece of cake, you cannot eat it exclusively. More often than not, other people take the majority, but you still have some to eat. If you cannot figure out how to share the benefits, there is no way for you to make any profit. My boss definitely understands the game. (Interview in Banna, July 2016)

During the firm’s heyday, Laoding gained enormous wealth from importing, legally and illegally, hundreds of thousands of tons of rubber latex from Myanmar and Thailand. When some corrupted customs officers in Banna were convicted and sentenced to imprisonment in 2009, Laoding was also arrested for bribery and smuggling. The vacuum left by Laoding was soon filled up by other audacious managers who wanted to quickly profit from transnational agribusiness between Yunnan and Myanmar. Profit sharing

between firms and customs officials, albeit informally and illegally, sheds light on how firms deploy tactics to evade state regulations in collusion with corrupted cadres, though these entrepreneurs do not aim to fulfill geopolitical goals (which, for that matter, could also include the expansion of geoeconomic influence).

Indeed, far from seeing the Chinese state's reciprocal control over their businesses, manager interviewees viewed it more *instrumentally* as an opportunity to build partnerships with state agencies for transnational agribusiness. Hence, their reaction to reciprocal control is quite pragmatic. On the one hand, these entrepreneurs rely on the Chinese state's political and financial support to ensure the safety of their investments in northern Myanmar and the import of economic crops into Yunnan. On the other hand, they endeavor to evade state regulations so that they can gain more economic returns. While these firms can instrumentally use the Chinese state's antinarcotics programs as an opportunity to open up new spaces of capital accumulation, they also are subject to state control. From the firms' standpoint, the success of reciprocal control in Yunnan is contingent on the relative strength of collaboration and evasion in order to make agribusiness profitable, though antinarcotics security initiatives remain important. As our respondents always indicate, they may not actively participate in opium substitution in northern Myanmar if it is unprofitable.

While Amsden (2001) emphasizes that the state allocates subsidies to make manufacturing and other economic activities profitable, she does not go further to explore how firms can resist against or evade state control when profit margins are endangered. Congealed into transnational agribusiness between Yunnan and northern Myanmar are

entrepreneurs' practices of profit making under a certain set of social and political rules. Their localized networks in the border region allow them to operate transnational agribusiness better than other firms, but their economic activities had to be (self-) contained within the regulatory framework created by the Chinese state. Reflecting on China's opium substitution program, Tom Kramar, an analyst at the Amsterdam-based Transnational Institute (TNI), argues that "From TNI's perspective, the development model of China is not development. It's business as usual" (*Time*, 19 December 2013). Kramar further contends that "China's opium substitution policy should not continue in its present form" (*Time* 19 December 2013). While this critique spells out the working of China-led capital accumulation and narcotics control, it treats the policy as a black box without delving into the delicate power relations between the Chinese state and private agricultural firms and how the policy gets entangled with geopolitics and geoeconomics. On the surface, it is business as usual, but when probed further, it is not an outcome of the abstract laws of China's capital expansion into northern Myanmar. Rather, it encompasses a geopolitically driven and institutionally differentiated spatial strategy to overcome the Chinese state's sovereign limit towards an experimentation with transnational narcotics control.

Conclusion

This paper has analyzed how the enactment of reciprocal control institutionalizes transnational agribusiness between Yunnan and northern Myanmar and shapes the state-firm relationship. The geoeconomic logic of transnational agribusiness has been integrated into the Chinese state's concern with drug-oriented national security challenges, indicating the increasing significance of nonstate and private actors in

national security strategies (Cowen and Smith, 2009). Two expressions of integration are presented. First, state agencies in the central government in Beijing provide public funding to subsidize Yunnanese firms and collaborate with their counterparts in Southeast Asia to clear political hurdles for the opium substitution program. Second, subnational state agencies in Yunnan take responsibility for implementing reciprocal policies made by the central government and monitor firms' transnational agribusiness through subsidy regulation and import quotas. The administrative division of reciprocal control aims to overcome the sovereign limits of the Chinese state—in terms of border control and political sensitivity—for transnational narcotics control.

Relative to the state-firm relations for geoeconomic engagement as identified by Luttwak (see section 2), the institution of reciprocal control in Yunnan represents a move away from top down, administratively oriented planning to a dynamic engagement with market actors. The emphasis on reciprocity, rather than absolute disciplinary control, augments the status of market actors in the security regime. This situation was not seen during the Mao era and is still highly uneven across China, given the Chinese state's ideological distrust of private capital accumulation. Reciprocal control thereby demonstrates the expansion of geoeconomic influence as a *means* of securitization. To reduce the flows of illicit drugs into China, the promotion of transnational agribusiness in targeted areas in northern Myanmar became a state spatial strategy. The development and regulation of this specific agribusiness reflects how market logics have permeated geopolitical calculations within senior policymaking circles in China.

Finally, the analysis demonstrates a mixture of state authority and market logic at work, albeit with compromise and resistance, with critical implications for research into China's growing geoeconomic influence. This analysis of reciprocal control contains the potential for analyzing the state-firm nexus as the constituent entity of a globalizing China and as a platform for investigating localized ways of pursuing geopolitical and geoeconomic goals (Lim, 2010; Norris, 2016). Gonzalez-Vicente (2011) argues that the operation of Chinese SOEs overseas is an extension of the Chinese state's strategic branches. This extension is not built upon a neoliberal policy of privatization and deregulation, but on marketization and profitability. The alliance between Chinese state agencies and Chinese SOEs, together with local business partners and a group of cosmopolitan professional managers, gives rise to what Gonzalez-Vicente (2011: 409) calls "the porosity of state/society boundaries." This sort of porosity similarly happens to state agencies and private firms in transnational agribusiness between Yunnan and northern Myanmar. Indeed, China's global expansion builds upon the Chinese state's regular reconfiguration of domestic economic-geographical formations as Chinese enterprises' active involvement in the global economy (Lim, 2014). For this reason, Alice Amsden's work on reciprocal control is so valuable, showing the entwinement of reciprocity within the geopolitical-geoeconomic dynamic.

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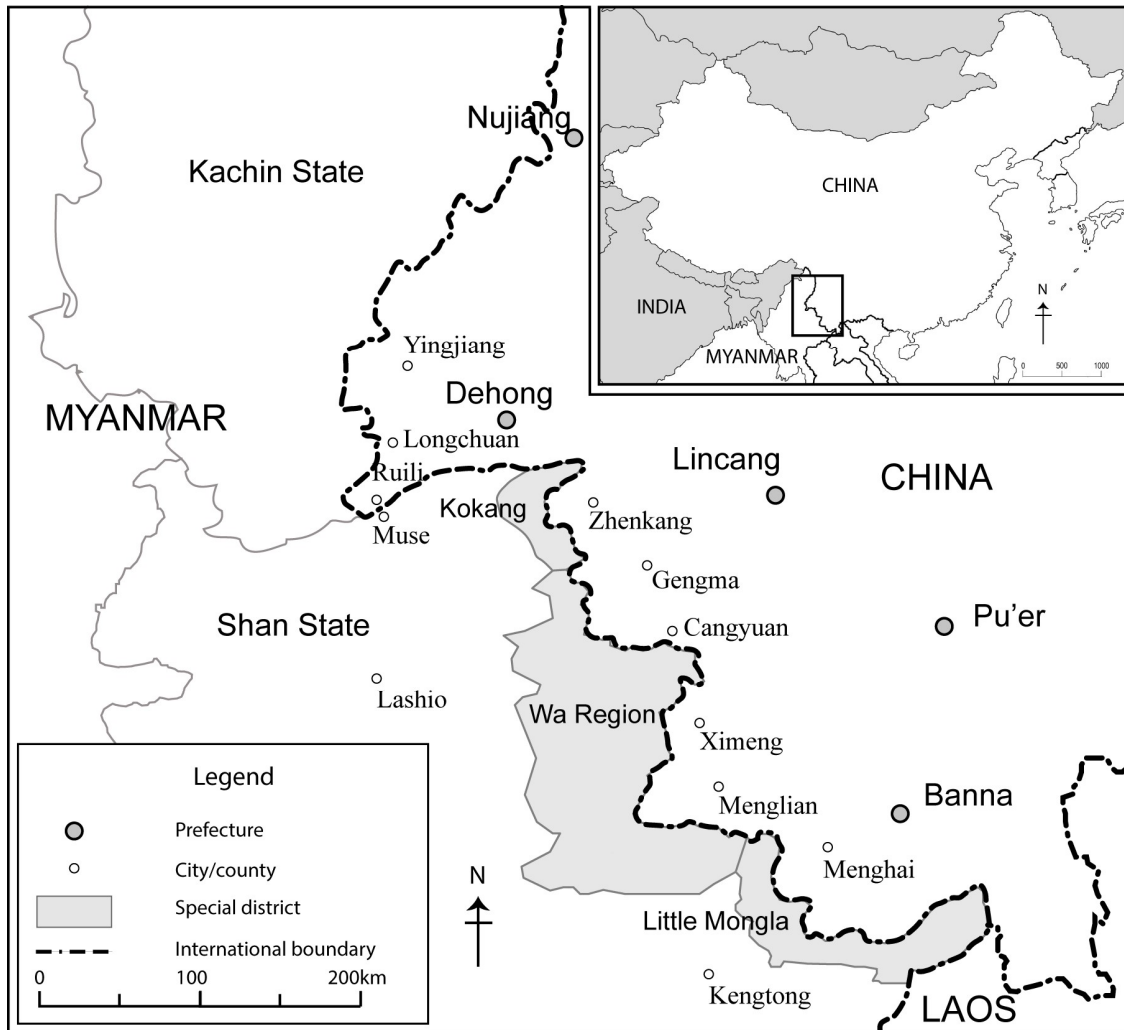


Figure 1